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THE STATEMENT OF

MR. BILLY ROSE

PRESIDENT & CHIEF EXECUTIVE OFFICER

CROP 1 INSURANCE

URBANDALE, IOWA

BEFORE

THE SUBCOMMITTEE ON GENERAL FARM COMMODITIES & RISK MANAGEMENT

HOUSE COMMITTEE ON AGRICULTURE

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STATEMENT OF BILLY ROSE, PRESIDENT/CEO
CROP 1 INSURANCE, URBANDALE, IOWA

Chairman Moran, Ranking Member Etheridge, members of the subcommittee, my name is Billy Rose, and I am president and chief executive officer of Crop 1 Insurance, a privately held crop insurance provider in Urbandale, Iowa.

I want to thank the Chairman for convening this oversight hearing to review the significant merits of the Risk Management Agency's premium reduction plan (PRP). While I won't deal with our specific comments on the RMA rulemaking now ongoing to implement Sec. 508 (e) (3) of the Federal Crop Insurance Act (FCIA), I ask that my formal statement, including Crop 1's formal comments on USDA's proposed rule, be made a part of the hearing record.

I'm accompanied today by Mr. Kelly Deterding, Senior Vice President City Bank Texas, Windmark Insurance Crop Division, a Crop 1 affiliate based in Lubbock, Texas, as well as Mr. Raymond Grabanski, President of Progressive Ag Systems from Fargo, North Dakota, who represents Crop 1 in the Dakotas, Minnesota and Wisconsin. Both gentlemen are available to answer any questions you may have. In addition, our formal statement for the record includes several letters of support from satisfied farmer customers and crop insurance agents.

As the subcommittee knows, Occidental Fire & Casualty Insurance of North Carolina, with its managing agency, Crop 1 is the only crop insurance provider today approved by USDA to provide PRP, or what we call our Premium Discount Plan (PDP). We welcome the opportunity to explain how Occidental and Crop 1 have made PRP work. Crop 1's estimates show PDP has saved farmers over $1 million in premium cost in the last two years. It is important to note that this premium reduction is strictly from expense savings and the farmer-paid portion of the premium available to pay losses has not changed as a result of the PRP. Thus, this premium reduction does not increase risk for insurers, reinsurers, the FCIC, or the American taxpayer.

Crop 1's PRP product is available in 15 states, many of which are represented by the members of this subcommittee. To date, Crop 1 has sold policies in 682 counties in those states. And, given the opportunity to service more farmers in more states, we will expand our service in a prudent manageable business manner.

It is our understanding six other companies have applied to RMA for approval to sell PRP products. It is Crop 1's hope more companies will be approved because we strongly believe enhanced competition is good for the industry, the American farmer, and taxpayers.

PHILOSOPHY, HISTORY, INNOVATION, OPERATION OF CROP 1

The business philosophy of Crop 1 agents is simple: Provide farmers the best possible crop insurance product -- with good service -- at the best price. We and our agents can successfully deliver on this philosophy because we've developed the technology and processes necessary to provide coverage and services to producers while controlling our administrative and operations expenses, coming in within the expense allowance provided by USDA.

My goal has always been to help farmers reduce their insurance costs and the time it takes agents to analyze the different risk management options available to farmers today. Before founding Crop 1, I managed a business helping farmers obtain loans and crop insurance. I saw first hand how hard it is for many farmers to make ends meet. More importantly, as a crop insurance agent I saw how difficult it is for them to come up with the extra cash to buy the higher levels of insurance coverage they actually needed. In addition, I saw how much time it takes to analyze all the different crop insurance options available to farmers. This is especially difficult when evaluating the marketing alternatives that must be considered when developing a risk management plan.

I decided something needed to be done to help the American farmer reduce his crop insurance cost and to help agents better analyze the different risk management options with their farm customers. That led to the development of Crop 1.

I worked closely with the RMA to ensure our program complied with all the rules and regulations governing the crop insurance program while offering a savings to our farm customers. I worked closely with our agents, who now number over 400, to develop a program that works for them and helps them provide better service to their farm customers.

It took a lot of hard work by a dedicated team of employees at Crop 1, a team largely made up of people who, like me, have lived in rural America. This teamwork allowed us to largely achieve what we set out to do. We help farmers purchase higher levels of insurance coverage without significantly increasing their cost. We developed software enabling agents to efficiently analyze years of history and provide counsel and advice to their farm customers. We developed Internet websites for all of our agent affiliates, and are continuing to enhance those websites with information for both agents and their customers.

Today, Crop 1 offers PDP on all federally reinsured crop insurance programs except CAT, and offers farmers a guaranteed savings of up to 10% on the farmer-paid premium. PDP is available for all crops in Idaho, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Texas, Washington and Wisconsin. It is important to note that the reduced premium (savings) is strictly from expense reductions and the portion of the farmer premium available to pay losses does not change. Thus, this type of premium reduction does not bring more risk to the insurer, reinsurer, or federal government.

We are fortunate to have a well-managed insurance company supporting us which also believes in our goal. Occidental Fire & Casualty of North Carolina has a surplus of over $100 million. More importantly it has senior management with many years of crop insurance experience. Attached is a letter from Ken Coon, senior vice-president of Occidental. Crop 1 collaborates closely with Occidental, which in turn provides oversight and support, as discussed in the letter from Mr. Coon.

In addition to support and oversight from Occidental, PDP is backed by five highly rated private reinsurers. This year our reinsurance treaty was over-subscribed and we have excellent reinsurance support for our program.

As the members of the subcommittee can readily see, Occidental and Crop 1 intend to be in the crop insurance business for a long time, providing continuing service and innovation to our farmer customers.

WHY PRP AND WHY NOW?

The issue before us today is this: Is a federal program allowing premium discounts to farmers in need of affordable crop insurance a good idea? Or put another way, should companies like Crop 1 – and hopefully, other firms which will apply to sell PRP -- providing the best available crop insurance product at the best possible price to the farmer, be permitted to continue to offer this valuable service?

The answer, based on our experience, is a resounding "yes." However, our experience also suggests not all producers and agents will want a PRP. That's fine. We strongly believe producers should have the option to purchase crop insurance at a discount. We believe in free markets, competition, and playing by the rules.

Many on this subcommittee participated over the years in the various overhauls of the federal crop insurance program, including the efforts which led to authorizing PRP. As you'll recall, Congress enacted PRP authority in 1994 to give farmers more options to manage risk by allowing for price competition among crop insurance providers, all part of the broader goal of increasing farmer participation in the federal crop insurance program.

Such forward thinking is axiomatic to successful modern business, and particularly appealing to entrepreneurs like me: Competition spawns innovation, and innovation, properly managed increases quality, improves service, and lowers price. This is why we have PRP. It is an innovation sorely needed in an industry just beginning to move into the 21st century.

Congress, in authorizing PRP, recognized risk management tools and least-cost production are not mutually exclusive. Enhanced competition provides incentive to others, particularly smaller companies, to participate in the crop insurance market. Let's not forget: The crop insurance industry, like much of production agriculture, is consolidating. In 1985, there were more than 50 companies in the crop insurance market; at the time Crop 1 entered the market, there were less than 20, and the largest companies control the lion's share of the market.

There are those who contend PRP will somehow "destabilize" the crop insurance industry. I submit PRP, rather than upsetting the industry balance, will serve to help to stabilize and vitalize the crop insurance industry, so it can provide to farmers exactly what Congress always intended: Readily available – and affordable -- crop insurance coverage that meets an individual farm operation's unique situation and demand.

One of the primary benefits of PRP is it causes those crop insurance companies who wish to offer a PRP to operate within the administrative and operating expense budget authorized by the FCIC. Today, some companies have operating costs exceeding that A & O budget. These companies are forced to rely on speculative underwriting gains to cover operating expense. This is not good business.

When we have a year with poor weather or bad prices, companies that rely on underwriting gains may not be able to pay their operating expenses. Losing a crop insurance provider or two is what destabilizes the industry. That has happened in recent years because companies have operating costs exceeding A & O reimbursement. The PRP program protects companies, the American farmer, and the American taxpayer from such situations because it causes them to operate within A & O budgets. This makes good business sense.

We do not believe that companies should be forced to offer a PRP. Many agents and companies may choose to operate with the traditional business model. They should have that right. But, we believe that the traditional model presents a greater risk to the industry and American taxpayers.

We believe that the PRP enhances the ability of a new company like Crop 1 to enter higher risk crop insurance markets. If companies must rely on underwriting gains to pay their operating expenses they can only realistically operate in states where they are fairly confident they will receive an underwriting gain. However, under PRP a company can be confident it can pay its bills even without an underwriting gain. This permits a firm to go into higher risk states where it has historically been difficult to generate underwriting gains.

For example, this past year Crop 1 expanded into Texas. Historically, loss ratios in Texas have been relatively high. Without PRP, I doubt that we would have entered the Texas market. However, with PRP we not only entered the Texas market, we added more volume this past year in Texas than we did in any other state, and by a wide margin.

To Crop 1, PRP is the next logical step in the evolution of the crop insurance industry. When first established, federal crop insurance was available only to drought-ravaged Plains states; today, crop insurance is available in all states. For decades, federal crop insurance was only available on grains, oilseeds and other program crops; today, it is available on almost all crops, including specialty crop production. In 2000, with passage of the Agriculture Risk Protection Act (ARPA), Congress provided first time authority to pilot test livestock risk protection insurance, giving livestock producers a much-needed risk management tool previously denied them.

And lest we forget, in 2000 ARPA included language restating the need for less expensive federal crop insurance and enhanced price competition, reinforcing congressional intent to authorize crop insurance providers the opportunity to offer PRP products.

Prior to each of these landmark changes, there were those clamoring that such a departure from the traditional system of providing crop insurance would mean the end of – or at the very least, severe damage to -- the crop insurance industry. However, Congress stood by its commitment to enhance farm risk management options, and today we see an industry where these predicted disasters are now revenue centers for crop insurance companies. So much for Chicken Little. The sky did not fall.

Some critics assert because nearly 80% of eligible acres were enrolled in the federal crop insurance program in 2004, innovations such as PRP are unnecessary. Seventy-five years ago naysayers would probably have claimed since we farmed 80% of the arable farmland in the U.S., we didn't need tractors. Competition and innovation are what has made American great. They should be encouraged, not discouraged.

While increasing participation was one reason Congress authorized PRP, this was not the only reason. Congress decided price competition among crop insurance companies was not necessarily a bad thing; in fact, Congress correctly reasoned price competition would bring benefits not only to farmers, but to the crop insurance industry as a whole. Crop 1 agrees.

While it is important to keep acreage enrollment as high as possible, it is equally important that premium price competition keeps prices low, rendering higher coverages more affordable. Allowing farmers to purchase higher levels of coverage without significantly increasing their operating cost was one of my goals in creating Crop 1.

The industry's goal – and certainly the explicit intent of Congress as evidence in 1994 and again in 2000 – is to protect farmers from risk, allow them to choose coverage levels appropriate to their individual risk management needs, and, implicitly, to protect American taxpayers from costly disaster programs and insurance company bailouts. As noted in the attached farmer and agent letters, we have proven that PRPs encourage farmers to buy higher levels of coverage.

PRP-enhanced price competition, and the innovation among companies that will result, are key to *maintaining* historically high farmer participation levels, increasing coverage levels, and operating in an industry in years where there may be no underwriting gain. Therefore, it's in the farmer's best economic interest and that of the crop insurance industry to keep competition among the remaining crop insurance providers as robust as possible while operating within a budget that is not reliant on uncertain underwriting gains. This is what PRP helps to ensure. Crop 1's success is tangible evidence of this fact.

Prior to PRP, crop insurance companies did not compete on the premium price offered to producers, but rather competed with each other on agent commissions. Companies recruited other firms' agents by offering higher and higher commissions, leading to the departure from the marketplace of companies that could not afford the bidding war. While we do not support a federal cap on agent commissions, Crop 1 reiterates that PRP allows companies to compete not just on which firm can pay the most to an agent, but on price and service to their customers – exactly the way other successful businesses operate.

Crop 1 embraces the premise of universal availability underpinning the federal crop insurance program. However, with the advent of PRP, universal availability takes on a new dimension. With Crop 1's entry into the crop insurance market, the federal government stepped away from an arbitrary coverage price-setting function, instead providing parameters and the necessary strict oversight – including revocation of PRP authority for bad actors -- to allow farmers to confidently shop price as well as policy coverage and service when seeking crop insurance coverage.

Some argue a farmer's crop insurance purchasing decision is somehow dramatically complicated by factoring in price. Crop 1's experience demonstrates our farmer customers are not the least daunted by shopping price. In fact, farmers expect to factor in price on everything to do with their farming operation, so they welcome the ability to compare prices among crop insurance providers.

Crop 1's experience also shows us that given the ability to shop for crop coverage among providers both large and small, some offering PRP and others not, farmers ultimately seek the best package of coverage for their unique farming situation. Just as not all agents align with the company providing the highest commission, not all producers align with the company offering the lowest premium. There is balance, equilibrium not achievable without enhanced competition.

This point is best made by one of our Iowa customers, who said, "The premium discount enabled us to increase our coverage level with the same premium dollars. *We feel it is very important for the crop insurance structure to be more of a 'free enterprise' and less of a bureaucracy.*" (Emphasis added)

PRP OVERSIGHT NEEDED

Crop 1 is the best example – because it's the only example – of how Congress' foresight in authorizing PRP gives smaller companies a chance to compete more effectively with larger firms. A marketplace dominated by a few large companies robs farmers of choices and the opportunity for cost savings. Market domination also limits industry innovation because it removes incentives for change.

We accept and endorse vigorous RMA control and oversight over companies seeking to offer PRP. Farmers deserve to do business only with companies economically viable to participate in the program, and we believe RMA is pursuing a correct balance between vetting new entrants and adequate regulatory controls to protect farmers.

Any firm applying for PRP authority must demonstrate that its cost savings are realistic and demonstrable so as to prevent unfair competition based upon pie-in-the-sky cost savings projections. At the same time, RMA should revoke approval of any company offering PRP which does not meet the federal standards of performance.

RMA further must have an efficient regulatory mechanism to prevent companies from providing coverage only to particular geographic areas, crops, groups and/or individuals because the company perceives a lower risk of loss, i.e. "cherry-picking." As stated previously, Crop 1 enthusiastically supports the requirement that a company offering PRP make it available on all crops and to all producers in all states in which it does business. Further, Crop 1 supports RMA's emphasis on enhanced marketing efforts to small and limited-resource, minority and female producers.

CONCLUSION

Crop 1 commends Congress for having the foresight to authorize PRP in 1994 and reinforce that effort in 2000; we also applaud USDA for seeking to make permanent the process and criteria by which companies apply for and are approved to offer PRP, as well as providing the oversight critical to PRP's success.

As the only company currently approved by USDA to offer PRP products, Crop 1 fully understands its PDP program is a case history which can be studied by this subcommittee and others who need to understand how well PRP works in the real world when offered by a company which takes its responsibility to the farmer customer seriously.

PRP is the latest step in the nearly 75-year evolution of the federal crop insurance program. Each time innovation has been proposed for the crop insurance program, there has been resistance, and ultimately, that resistance has been shown to be unwarranted. Crop 1 is confident history will repeat itself.

Given an opportunity to grow and expand as more companies enter the marketplace, PRP will become an even more important aspect of farm risk management, if only because PRP enhances competition among crop insurance providers, and inevitably leads to better products and services for the farmer customer.

Crop 1's experience demonstrates over and over again that including price comparison in the crop insurance shopping formula is a welcome improvement for farmers who constantly battle to develop the best possible combination of crop insurance options for their particular farming situation. To paraphrase one of our Iowa customers, shopping for crop insurance needs to be more free enterprise and less bureaucracy.

For the American farmer struggling to attain and maintain least-cost production, Crop 1 and its PDP program represent the first opportunity within the federal crop production program to shop and compare crop insurance coverage by price. This allows Crop 1 to deliver again and again on its business philosophy: We provide farmers the best available crop insurance products and service at the best possible savings.

Mr. Chairman, I thank you and the subcommittee for your attention, and I'd be happy to answer any questions you may have.

Respectfully submitted,

Billy Rose
President and Chief Executive Officer
Crop 1 Insurance
Urbandale, Iowa